ANZ Research

New Zealand Weekly Data Wrap

2 June 2023

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See page 5.

Forecast updates

Recent ANZ NZ Forecast Updates can be found here.

- NZ Property Focus: On the floor, ready to floor it?
- NZ Forecast Update: getting an extension
- NZ Forecast Update: milk price forecasts revised down

Our other recent publications are on page 2.

What's the view?

- GDP transitioning from acute supply constraints to a softening demand pulse.
- Labour market still tight, but expected to cool.
- Inflation way above target and looking sticky.
- OCR on hold at 5.50% until November 2023, then higher.

Our forecasts are on page 4.

Confused by acronyms or jargon? See a glossary here.

Key risks to our view

- Global growth and financial market risks abound, as markets debate the rates outlook.
- Soaring net migration could see house prices start to rise more quickly.
- Booming migration plus fiscal stimulus could see inflation hold up for longer.
- NZ's large external imbalances could see the market impose a more abrupt adjustment path.

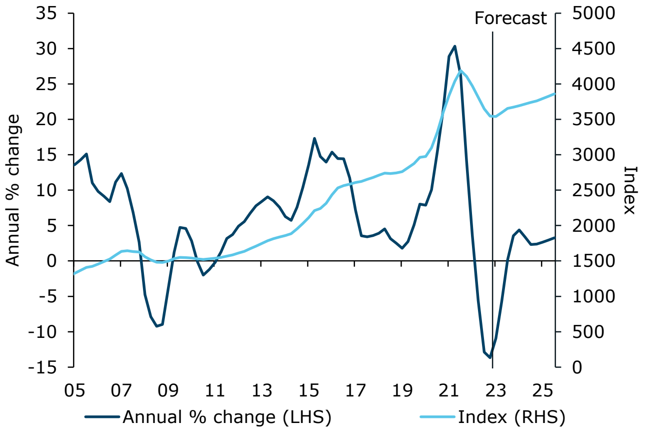
Resilience evident

This week we revised up our house price forecast, calling the floor and expecting prices to lift a bit over 3% over the rest of the year. Recent data suggests a turn. House prices were flat in April, and auction clearance rates in Auckland have risen quickly. Sales volumes remain very weak, but with new listings also weak, inventory levels are tightening. A surge in Barfoot & Thompson sales in May highlights the direction of risk.

Weak listings show that rising mortgages rates are not forcing households and investors to sell up in droves. About 70% of mortgages have rolled over to higher rates, but indicators of mortgage stress are only back to pre-COVID levels, with household incomes well supported by strong employment and wage growth. From here, with the RBNZ on hold, mortgage rates are likely to stabilise. Carded rates are what matters most for housing demand, though the effective mortgage rate actually being paid will continue to rise for some time yet. The easing of LVR restrictions could provide a further short-term boost. All up, we see a slowing in some of the headwinds to housing demand.

The rapid increase in net migration is also adding to demand, and combined with the slowdown in residential construction, New Zealand's housing deficit is widening again. We estimate that the housing shortfall increased about 5.5k in Q4 2022 and Q1 2023. While net migration inflows are expected to slow, we still expect the deficit to widen further, placing further upward pressure on prices. While the outlook remains highly uncertain, we don't expect the RBNZ will have much tolerance for any pick-up in the housing market, depending on what else is going on with consumers – particularly their job security.

Figure 1. House price forecast



Source: REINZ, ANZ Research

This week's ANZ Business Outlook survey also gently challenged the RBNZ's narrative of widespread sogginess across the economy, with most activity indicators off their lows and rising. Business confidence bounced 13 points to -31.1, its highest level since December 2021, while expectations of own activity and profits rose. While most indicators are still at weak levels, the direction of travel certainly doesn't suggest things are rolling over rapidly.

Positively, most inflation indicators eased, although only gradually. Inflation expectations continued their gradual shift lower, and pricing intentions inched down. But cost and wage expectations are still high and looking sticky. While inflation is on its way down, we're not convinced the job is 100% done. We expect the RBNZ will be back at the hiking table by the end of the year.

Financial markets update

NZ Insights and Analysis

ANZ produces a range of in-depth insights.

- NZ Property Focus: On the floor, ready to floor it?
- NZ Insight: divergence across the Tasman, recession for NZ but not for Oz
- NZ Economic Outlook: moving parts
- NZ Agri Focus: a further lift required
- NZ Insight: Inflation rotation
- NZ Insight: inflationary risks from Gabrielle
- NZ Insight: RBA/RBNZ policy divergence back in the spotlight

NZ Economic News

View latest data and policy releases

- RBNZ MPS Review: as you were
- NZ CPI Review: relatively good, absolutely bad
- NZ GDP: something for everyone
- NZ labour market: still super-tight in Q1
- NZ REINZ housing data: green shoots or false floor
- NZ Budget 2023 brings the bonds

Click here for more.

ANZ Proprietary data

Check out our latest releases below.

- ANZ Business Outlook
- ANZ-Roy Morgan Consumer Confidence
- ANZ Truckometer
- ANZ Commodity Price Index

A rollercoaster ride to November

Last week we set out why the data out between now and the July and August meetings are unlikely to sway the RBNZ from remaining on hold. Indeed, we suspect our expectation of a further hike in November could go against the grain of the consensus as the incoming economic data arrives.

For one thing, after last week's very weak retail trade data, the chance of the economy being in a technical recession has certainly risen. While we haven't yet finalised our Q1 GDP pick (released 15 June), and there are still plenty of partial indicators to come, it's not looking likely to be particularly strong. While that's likely to reflect that tighter monetary policy is indeed successfully cooling demand, in our view, that's not the full story. Regional divergence indicated larger-than-expected cyclone-related impacts. Those constraints on economic activity are temporary and we would expect some payback in Q2 as consumers catch up on deferred spending.

A second consecutive contraction in quarterly GDP is certainly possible, and would amount to the economy being in a technical recession. But it was a similar story in Q4, where we consider that supply-side constraints were a big contributor to the contraction. While the economy did expand on an unadjusted basis in Q4, it did so less than usual, driving a seasonally adjusted contraction. Q4 is boom time for tourism, retail, construction, and agricultural production, meaning that labour shortages would have been biting hardest in that quarter. We therefore aren't taking 100% of the contraction as reflective of cooling demand, and are unlikely to take weakness in Q1 fully that way either.

A recession would, however, likely have some shock value for markets, and lead expectations away from our call for an additional hike. But it's difficult to reconcile a recession with the fact unemployment is still hovering near record lows. Employment certainly doesn't look like it's about to fall off a cliff either, with filled jobs rising 0.6% m/m in April. Weaker growth that reflects ongoing supply constraints rather than rapidly cooling demand has very different implications for inflation. Of course, it isn't binary – there's a messy mix of impacts going on, and it's not surprising we're seeing different interpretations.

Inflation is certainly set to fall; there have been positive signs in recent months to suggest goods inflation is easing. And over the next few quarters, we fully expect base effects will drive a chunky fall in annual inflation. Indeed, markets may start to price cuts more enthusiastically, overlooking the fact that the RBNZ is anticipating precisely such a development. But meanwhile, we suspect that the underlying domestic inflation impulse may still be lurking under the surface. We won't find out for sure until the supply side of the economy normalises. It's getting there, but it's not quite there yet.

We've seen businesses' inflation expectations ease in recent months and consumer expectations also finally dipped in May. However, while moving in the right direction, the level remains far too high for comfort. Food prices are still strong, rents are likely to rise as a result of the rapid increase in net migration inflows, and the fuel subsidy is coming to an end. These are all factors highly salient to household budgets, implying risks that expectations will take some time to return to the target band. These challenges may be masked in the near term by base-effect-driven declines.

By November, the RBNZ expects the economy to be in a demand-driven recession, with the unemployment rate to have lifted to 4.1%, house prices to still be falling and non-tradables inflation to be down to 5.7% y/y. We will wait for Q1 GDP data to update our forecasts and incorporate the Budget and migration news. But in short, we think the data will tell a more resilient story on balance, warranting a further hike and risks of another. November is a long time away, and our call may well look wrong before it comes right.

Financial markets update

Data calendar

What's coming up in the months ahead.

Date	Data/event
Tue 6 Jun (1:00pm)	ANZ Commodity Price Index – May
Wed 7 Jun (early am)	GlobalDairyTrade auction
Thu 8 Jun (10:45am)	Economic Survey of Manufacturing – Q1
Mon 12 Jun (10:45am)	Electronic Card Transactions – May
Tue 13 Jun (10:45am)	Net Migration – Apr
Wed 14 Jun (10:45am)	Food Price Index – May
Wed 14 Jun (10:45am)	Rental Price Index – May
Wed 14 Jun (10:45am)	Current Account – Q1
Thu 15 Jun (10:45am)	**GDP – Q1**
Fri 16 Jun (10:30am)	BusinessNZ Manuf PMI – May
Mon 19 Jun (10:30am)	Performance Services Index – May
Wed 21 Jun (early am)	GlobalDairyTrade auction
Thu 22 Jun (10:45am)	Merchandise Trade – May
Fri 23 Jun (10:00am)	ANZ Truckometer – May
Thu 29 Jun (1:00pm)	ANZ Business Outlook – Jun
Fri 30 Jun (10:00am)	ANZ-RM Consumer Confidence – Jun
Mon 3 Jul (10:45am)	Building Permits – May
Wed 5 Jul (early am)	GlobalDairyTrade auction
Wed 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun
Tue 11 Jul (10:45am)	Electronic Card Transactions – Jun
Wed 12 Jul (10:45am)	Net Migration – May
Wed 12 Jul (2:00pm)	**RBNZ MPR**
Thu 13 Jul (10:45am)	Food Price Index – Jun
Thu 13 Jul (10:45am)	Rental Price Index – Jun
Mon 17 Jul (10:30am)	Performance Services Index – Jun
Wed 19 Jul (early am)	GlobalDairyTrade auction
Wed 19 Jul (10:45am)	**CPI – Q2**

Interest rate markets

Global bond yields have trended lower this week, led by the US as markets contemplate the possibility of a Fed "skip" this month on more circumspect "Fedspeak", and as US manufacturing and European inflation data eased. We (and most in the market) assume that the Senate will pass the US debt ceiling deal, possibly as early as today. While that will remove an element of uncertainty, US bond market sentiment is ebbing and flowing, with worries about whether the Fed needs to tighten again dominating one moment and worries about weaker data dominating the next. US non-farm payrolls data tonight will be key for the Fed's June meeting, and we are keeping an open mind, particularly given how depressed Fed policy expectations now are. We also think it makes sense to brace for volatility. Local markets have warmed to the idea that the hurdle to a near-term RBNZ hike is high. But volatility is likely as data comes to hand, and we still see the skew of risks as shaded to the upside – hence our call for one more OCR hike this cycle. It's a stretch to say that the next few months might be the calm before the storm, but that's the vibe of our thinking given we aren't yet convinced that the RBNZ has done enough. As such, we still see upside risks to market interest rates.

FX markets

The Kiwi has struggled this week, only popping higher overnight on USD weakness as US bond yields fell. We'd caution against banking on any USD move being sustained ahead of key non-farm payrolls data tonight and think it makes sense to brace for volatility. Looking ahead, volatility is likely to be a constant frustration, but as global policy cycles mature, we expect carry and fair value to become stronger drivers. NZ's twin deficits are a blight, but rating agencies seem comfortable for now, and our forecasts assume carry and gravitation to fair value will deliver mild NZD appreciation over 2023.

Key data summary

ANZ Roy Morgan Consumer Confidence – May. Consumer confidence was flat in May at 79, a low level. One-year-ahead CPI inflation expectations fell from 5.2% to 4.8%, interrupting what was starting to look like an upward trend.

Building Permits – April. The downward trend remains, with consents down 2.6% m/m.

ANZ Business Outlook – May. Most activity indicators improved in the May ANZ Business Outlook survey, while inflation indicators inched lower.

RBNZ sectoral lending data – April. Annual growth in mortgage lending slowed to 3.2% y/y.

Overseas Trade Indices – Q1. New Zealand's goods terms of trade fell 1.5% q/q in Q1.

Building Work Put in Place – Q1. Rose 0.6% q/q, stronger than expected.

The week ahead

ANZ Commodity Price Index – May (Tuesday 6 June, 1:00pm).

GlobalDairyTrade auction (Wednesday 7 June, early am). While futures pricing points to a small uptick in GDT prices, extra whole milk powder for July delivery is likely to weigh on the market. If prices are able to be maintained at current levels, this will be a positive result for sellers.

Economic Survey of Manufacturing – Q1 (Thursday 8 June, 10:45am). The PMI suggest Q1 will be a bit stronger than Q4's 4.7% q/q decline.

Key forecasts and rates

FX rates	Actual Apr-23	May-23	Today	Forecast (end month) Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZD/USD	0.618	0.601	0.606	0.630	0.640	0.650	0.650	0.650	0.650
NZD/AUD	0.935	0.927	0.922	0.926	0.914	0.903	0.903	0.903	0.890
NZD/EUR	0.561	0.562	0.563	0.568	0.571	0.570	0.560	0.551	0.542
NZD/JPY	84.3	84.1	84.2	81.9	81.3	80.6	79.3	78.0	76.7
NZD/GBP	0.492	0.486	0.484	0.496	0.500	0.500	0.492	0.485	0.478
NZ$ TWI	70.4	69.9	70.1	70.7	70.6	70.5	70.0	69.6	69.0
Interest rates	Apr-23	May-23	Today	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
NZ OCR	5.25	5.50	5.50	5.50	5.50	5.75	5.75	5.75	5.75
NZ 90 day bill	5.56	5.69	5.68	5.60	5.77	5.85	5.85	5.85	5.68
NZ 2-yr swap	5.05	5.20	5.17	5.42	5.48	5.21	4.97	4.73	4.48
NZ 10-yr bond	4.09	4.29	4.28	4.50	4.40	4.30	4.00	4.00	4.00

Economic forecasts

	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP (% qoq)	-0.6	**0.2**	**0.3**	**-0.3**	**-0.6**	**-0.2**	**0.1**	**0.3**	**0.3**
GDP (% yoy)	2.2	**2.9**	**1.6**	**-0.4**	**-0.4**	**-0.8**	**-1.0**	**-0.4**	**0.5**
CPI (% qoq)	1.4	1.2	**1.1**	**2.0**	**0.7**	**0.8**	**0.5**	**0.8**	**0.5**
CPI (% yoy	7.2	6.7	**6.1**	**5.9**	**5.2**	**4.7**	**4.0**	**2.8**	**2.6**
Employment (% qoq)	0.5	0.8	**0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.1**	**0.1**	**0.2**
Employment (% yoy)	1.6	2.5	**2.8**	**1.2**	**0.3**	**-0.9**	**-1.3**	**-0.8**	**-0.2**
Unemployment Rate (% sa)	3.4	3.4	**3.5**	**4.0**	**4.4**	**5.0**	**5.2**	**5.3**	**5.4**

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year. **Click here for full ANZ forecasts**

Figure 2. GDP level

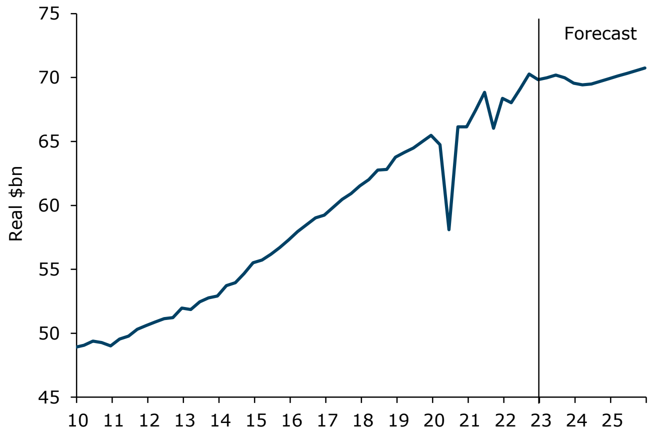


Figure 3. CPI inflation components

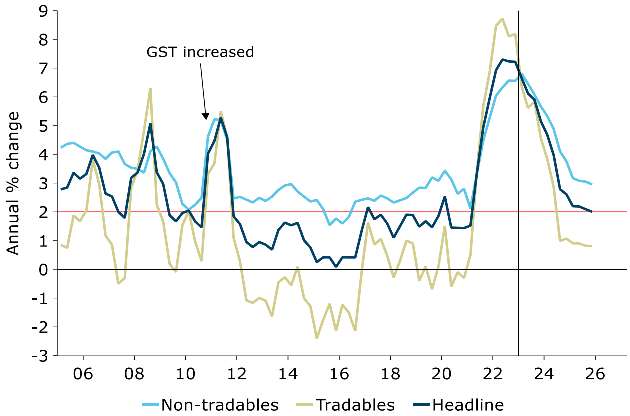


Figure 4. OCR forecast

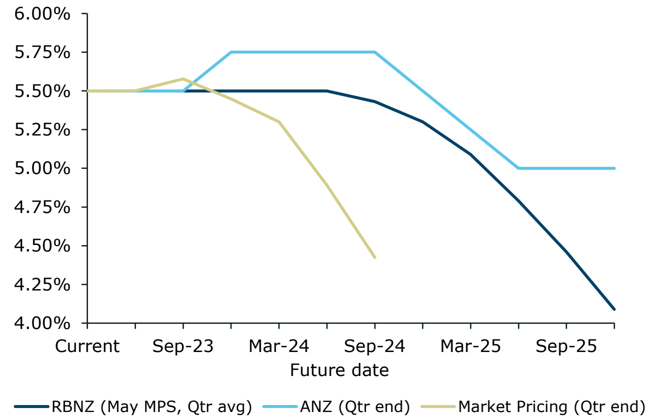
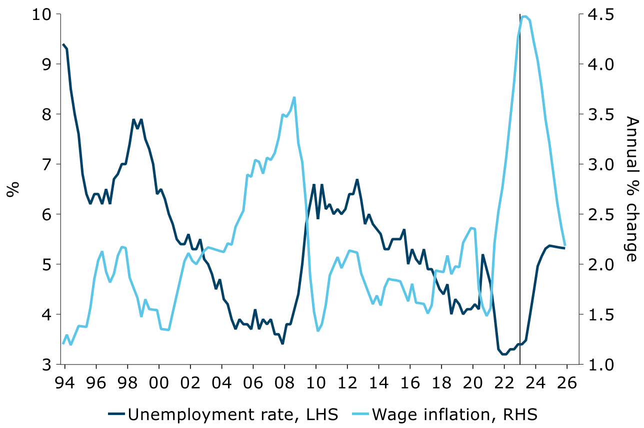


Figure 5. Unemployment and wage inflation



Source: Stats NZ, Bloomberg, RBNZ, Macrobond, ANZ Research

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